

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: City of Coloma	County Berrien
Audit Date March 31, 2005	Opinion Date June 1, 2005	Date Accountant Report Submitted To State: September 21, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 511 Renaissance Drive, Suite 120	City St. Joseph	State MI	ZIP 49085
Accountant Signature 			

City of Coloma, Michigan

Financial Report
with Supplemental Information
March 31, 2005

City of Coloma, Michigan

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Independent Auditor's Report

To the City Council
City of Coloma, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Coloma, Michigan as of and for the year ended March 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Coloma, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Coloma, Michigan as of March 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the City Council
City of Coloma, Michigan

As described in Note 8, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of April 1, 2004.

Plante & Moran, PLLC

June 1, 2005

City of Coloma, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Coloma, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended March 31, 2005. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2005:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$25,000 this year.
- The City received a grant in the amount of \$375,000 for road improvements.
- Total net assets related to the City's governmental activities increased by approximately \$537,000. However, approximately \$375,000 of this increase was attributable to grant revenue in 2005. Related expense will follow in the form of depreciation over the next several years.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Coloma as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Coloma, Michigan

Management's Discussion and Analysis (Continued)

The City of Coloma as a Whole

The following table shows, in a condensed format, the net assets as of March 31, 2005. In future years, when prior year information is available, comparative data will be presented.

	Governmental Activities	Business-type Activities	Total Primary Government	Component Unit - Downtown Development Authority
Assets				
Current assets	\$ 350,949	\$ 169,277	\$ 520,226	\$ 478,952
Noncurrent assets	<u>1,040,291</u>	<u>1,428,610</u>	<u>2,468,901</u>	<u>33,333</u>
Total assets	1,391,240	1,597,887	2,989,127	512,285
Liabilities				
Current liabilities	51,075	20,131	71,206	229,776
Long-term liabilities	<u>68,632</u>	<u>40,901</u>	<u>109,533</u>	<u>299,583</u>
Total liabilities	<u>119,707</u>	<u>61,032</u>	<u>180,739</u>	<u>529,359</u>
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	841,184	1,132,246	1,973,430	33,333
Restricted for streets	87,165	-	87,165	
Unrestricted	<u>343,184</u>	<u>404,609</u>	<u>747,793</u>	<u>(50,407)</u>
Total net assets (deficit)	<u>\$ 1,271,533</u>	<u>\$ 1,536,855</u>	<u>\$ 2,808,388</u>	<u>\$ (17,074)</u>

The City's combined net assets increased 26.7 percent from a year ago - increasing from \$2,216,818 to \$2,808,388. As we look at the governmental activities separately from the business-type activities, we can see that governmental activity net assets increased 73 percent, from \$536,724 to \$1,271,533. Business-type activity net assets increased 3.7 percent, from \$1,482,009 to \$1,536,855. The City's component unit, the Downtown Development Authority, with a positive change in net assets of \$104,077, decreased the net asset deficit from \$(121,151) to \$(17,074).

The current level of unrestricted net assets for our governmental activities stands at \$343,184, or about 45 percent of expenditures. This is within the targeted range set by the City during its last budget process.

City of Coloma, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during fiscal 2005. In future years, when prior year information is available, comparative data will be presented.

	Governmental Activities	Business-type Activities	Total Primary Government	Downtown Development Authority
Revenue				
Program revenue:				
Charges for services	\$ 122,987	\$ 334,385	\$ 457,372	\$ -
Operating grants and contributions	127,350	-	127,350	-
Capital grants and contributions	425,000	-	425,000	-
General revenue:				
Property taxes	421,466	-	421,466	196,921
State-shared revenue	172,635	-	172,635	-
Unrestricted investment earnings	5,785	4,189	9,974	1,997
Miscellaneous	24,380	-	24,380	75
Total revenue	1,299,603	338,574	1,638,177	198,993
Program Expenses				
General government	164,100	-	164,100	-
Public safety	236,274	-	236,274	-
Public works	256,972	-	256,972	-
Recreation and culture	19,097	-	19,097	-
Cemetery	84,751	-	84,751	-
Interest on long-term debt	1,685	-	1,685	-
Water and sewer	-	283,728	283,728	-
Downtown Development Authority	-	-	-	94,916
Total program expenses	762,879	283,728	1,046,607	94,916
Change in Net Assets	\$ 536,724	\$ 54,846	\$ 591,570	\$ 104,077

City of Coloma, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The City's total governmental revenues increased by approximately \$376,500. The increase was primarily due to increased capital grants and contributions in the amount of \$359,000.

Expenses decreased by about \$237,000 during the year. The most significant decreases were due to the Leonard Fund making fewer contributions in the current year (\$200,000) and a decrease in public safety expenses (\$80,000). We continue to benefit from the consolidation of police services with Coloma Township. The savings incurred have offset the loss of some of our industrial tax base. The City has continued to work with other municipalities in cooperative efforts to consolidate services. Savings are being realized in Fire and Public Works Department costs.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. During the year ended March 31, 2005, the City improved their financial operating results, as compared to the year ended March 31, 2004, by approximately \$43,500. This was mostly due to the City seeing increased revenue, including the revenue which came from the contract with Coloma Township. Operating expenses were controlled by the City, increasing less than \$2,500.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The most significant change was to increase the estimated property tax revenue by approximately \$38,000. While a few departments exceeded budgeted expenditures, other departments stayed at or below budget, resulting in total expenditures of \$33,000 over budget. However, the General Fund also had revenues over budget of \$17,571 and transfers in from other funds of \$42,039 over budget, for an overall change in fund balance of \$26,269 greater than budgeted.

Capital Asset and Debt Administration

During the fiscal year ended March 31, 2005, the City invested approximately \$530,000 in miscellaneous road projects. The City received a grant for \$375,000 to help fund the construction. In addition, the City purchased approximately \$8,500 and \$44,000 of capital assets in the governmental and business activities, respectively. The City did not incur any new indebtedness during the year, and reduced outstanding City debt by approximately \$32,000. Furthermore, the City's component unit reduced its debt by approximately \$72,000.

City of Coloma, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The future of state revenue sharing is uncertain and it represents a significant portion of our income. Our taxable values will change very little in the near future, so it is important that the City continue to control costs and also continue the cooperative efforts with other municipalities.

The Leonard Fund transferred approximately \$93,000 to the Major Street Fund to fund the City's share of the MDOT project to rebuild St. Joseph Street. The City's General Fund anticipates reimbursing the Leonard Fund over the next five years.

Several changes will affect the City's water system in the coming year. About 125 new users will come online in the next year due to the State of Michigan's extension of services into a neighboring township. The City sells water services to this township. The State is funding the expansion due to Dachtal contamination of wells in the township. The net effect is expected to be positive for the City.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

City of Coloma, Michigan

Statement of Net Assets March 31, 2005

	Primary Government			Component Unit - Downtown Development Authority
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 269,499	\$ 74,591	\$ 344,090	\$ 455,668
Receivables - Net:				
Taxes	32,700	-	32,700	-
Customers	-	84,189	84,189	-
Special assessments	-	-	-	9,494
Other	-	-	-	13,790
Inventories	48,750	8,839	57,589	-
Prepaid costs and other assets	-	1,658	1,658	-
Capital assets - Net (Note 4):				
Assets not subject to depreciation	585,231	19,888	605,119	33,333
Assets subject to depreciation	275,655	1,168,210	1,443,865	-
Investment in joint ventures (Note 1)	179,405	240,512	419,917	-
Total assets	1,391,240	1,597,887	2,989,127	512,285
Liabilities				
Accounts payable	29,900	4,264	34,164	-
Accrued and other liabilities	6,792	916	7,708	-
Due to other governmental units	-	-	-	163,931
Noncurrent liabilities:				
Due within one year (Note 6):				
Accrued compensated absences	5,000	-	5,000	-
Long-term debt	9,383	14,951	24,334	65,845
Due in more than one year (Note 6):				
Accrued compensated absences	58,313	-	58,313	-
Long-term debt	10,319	40,901	51,220	299,583
Total liabilities	119,707	61,032	180,739	529,359
Net Assets				
Investment in capital assets - Net of related debt	841,184	1,132,246	1,973,430	33,333
Restricted for streets	87,165	-	87,165	-
Unrestricted	343,184	404,609	747,793	(50,407)
Total net assets	<u>\$ 1,271,533</u>	<u>\$ 1,536,855</u>	<u>\$ 2,808,388</u>	<u>\$ (17,074)</u>

City of Coloma, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
General government	\$ 164,100	\$ 25,209	\$ -	\$ -
Public safety	236,274	39,519	-	-
Public works	256,972	985	127,350	425,000
Recreation and culture	19,097	-	-	-
Cemetery	84,751	57,274	-	-
Interest on long-term debt	1,685	-	-	-
Total governmental activities	762,879	122,987	127,350	425,000
Business-type activities - Water and sewer	283,728	334,385	-	-
Total primary government	<u>\$ 1,046,607</u>	<u>\$ 457,372</u>	<u>\$ 127,350</u>	<u>\$ 425,000</u>
Component unit - Downtown Development Authority	<u>\$ 94,916</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year (Note 9)				
Net Assets - End of year				

Statement of Activities
Year Ended March 31, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit -
Governmental	Business-type		Downtown
Activities	Activities	Total	Development
			Authority
\$ (138,891)	\$ -	\$ (138,891)	\$ -
(196,755)	-	(196,755)	-
296,363	-	296,363	-
(19,097)	-	(19,097)	-
(27,477)	-	(27,477)	-
(1,685)	-	(1,685)	-
(87,542)	-	(87,542)	-
-	50,657	50,657	-
(87,542)	50,657	(36,885)	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (94,916)</u>
421,466	-	421,466	196,921
172,635	-	172,635	-
5,785	4,189	9,974	1,997
24,380	-	24,380	75
624,266	4,189	628,455	198,993
536,724	54,846	591,570	104,077
734,809	1,482,009	2,216,818	(121,151)
<u>\$ 1,271,533</u>	<u>\$ 1,536,855</u>	<u>\$ 2,808,388</u>	<u>\$ (17,074)</u>

City of Coloma, Michigan

Governmental Funds and Component Unit Balance Sheet March 31, 2005

	General	Major Streets	Local Streets	Leonard Fund	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 23,298	\$ 51,223	\$ 41,935	\$ 153,043	\$ 269,499
Taxes receivable	32,700	-	-	-	32,700
Total assets	\$ 55,998	\$ 51,223	\$ 41,935	\$ 153,043	\$ 302,199
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 10,384	\$ 2,660	\$ 3,066	\$ -	\$ 16,110
Accrued and other liabilities	6,525	107	160	-	6,792
Due to component unit	13,790	-	-	-	13,790
Total liabilities	30,699	2,767	3,226	-	36,692
Fund Balances					
Designated for projects funded by private contribution	-	-	-	153,043	153,043
Unreserved and undesignated	25,299	48,456	38,709	-	112,464
Total fund balances	25,299	48,456	38,709	153,043	265,507
Total liabilities and fund balances	\$ 55,998	\$ 51,223	\$ 41,935	\$ 153,043	

Amounts reported for governmental activities and the component unit in the statement of net assets are different because:

Capital assets used in governmental activities and the component unit are not financial resources and are not reported in the funds	860,886
Investment in joint ventures are recorded in the statement of net assets, but not recorded in the funds	179,405
Assets expected to be used over several years are recorded as inventory in the statement of net assets, but are expensed in the funds	48,750
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(83,015)
Net assets of governmental activities	\$ 1,271,533

City of Coloma, Michigan

Governmental Funds and Component Unit Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2005

	General	Major Streets	Local Streets	Leonard Fund	Total Governmental Funds
Revenue					
Property taxes	\$ 421,466	\$ -	\$ -	\$ -	\$ 421,466
Federal sources	-	375,000	-	-	375,000
State sources	172,635	93,963	33,387	-	299,985
Licenses and permits	15,789	-	-	-	15,789
Fines and forfeitures	3,886	-	-	-	3,886
Interest and rentals	71,062	-	-	1,958	73,020
Other	127,692	50,000	-	-	177,692
Total revenue	812,530	518,963	33,387	1,958	1,366,838
Expenditures					
General government	160,804	-	-	-	160,804
Public safety	256,647	-	-	-	256,647
Public works	243,587	-	-	-	243,587
Recreational and cultural	19,403	-	-	-	19,403
Highways and streets	-	598,460	21,508	-	619,968
Other	68,220	-	-	1,358	69,578
Total expenditures	748,661	598,460	21,508	1,358	1,369,987
Excess (Deficiency) of Revenue Over Expenditures	63,869	(79,497)	11,879	600	(3,149)
Other Financing Sources (Uses)					
Transfers in	42,039	93,000	-	-	135,039
Transfers out	-	-	-	(135,039)	(135,039)
Total other financing sources (uses)	42,039	93,000	-	(135,039)	-
Net Change in Fund Balances	105,908	13,503	11,879	(134,439)	(3,149)
Fund Balances - Beginning of year	(80,609)	34,953	26,830	287,482	268,656
Fund Balances - End of year	<u>\$ 25,299</u>	<u>\$ 48,456</u>	<u>\$ 38,709</u>	<u>\$ 153,043</u>	<u>\$ 265,507</u>

City of Coloma, Michigan

Governmental Funds and Component Unit Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended March 31, 2005

	Total Governmental Funds
Net Change in Fund Balances	\$ (3,149)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds and the component unit report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Current year capital additions	540,857
Current year allocation of depreciation	(31,300)
Repayment of debt principal is an expenditure in the governmental funds and component unit, but not in the statement of activities (where it reduces long-term debt)	18,688
Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	(23,861)
Decrease in investment in joint venture	(13,261)
Governmental funds report inventories as expenditures; in the statement of activities, these costs are recorded as inventory and expensed as the asset is used	48,750
Change in Net Assets	<u>\$ 536,724</u>

City of Coloma, Michigan

Proprietary Fund Statement of Net Assets March 31, 2005

	Enterprise - Water and Sewer
Assets	
Current assets:	
Cash and cash equivalents	\$ 74,591
Customer receivables	84,189
Inventories	8,839
Prepaid costs and other assets	<u>1,658</u>
Total current assets	169,277
Noncurrent assets:	
Capital assets	1,188,098
Investment in joint venture	<u>240,512</u>
Total assets	1,597,887
Liabilities	
Current liabilities:	
Accounts payable	4,264
Accrued and other liabilities	916
Current portion of long-term debt	<u>14,951</u>
Total current liabilities:	20,131
Noncurrent liabilities - Long-term debt - Net of current portion	<u>40,901</u>
Total liabilities	<u>61,032</u>
Net Assets	
Invested in capital assets - Net of related debt	1,132,246
Unrestricted	<u>404,609</u>
Total net assets	<u><u>\$ 1,536,855</u></u>

City of Coloma, Michigan

Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2005

	Enterprise - Water and Sewer
Operating Revenue	
Sale of water	\$ 114,911
Sewage disposal charges	219,474
Other charges for services	<u>4,189</u>
Total operating revenue	338,574
Operating Expenses	
Cost of water	87,164
Cost of sewage treatment	138,811
Depreciation:	
Water	22,180
Sewer	<u>33,270</u>
Total operating expenses	<u>281,425</u>
Operating Income	57,149
Nonoperating Expense - Interest expense	<u>2,303</u>
Change in Net Assets	54,846
Net Assets - Beginning of year (Note 9)	<u>1,482,009</u>
Net Assets - End of year	<u><u>\$ 1,536,855</u></u>

City of Coloma, Michigan

Proprietary Fund Statement of Cash Flows Year Ended March 31, 2005

	Enterprise - Water and Sewer
Cash Flows from Operating Activities	
Receipts from customers	\$ 320,730
Payments to suppliers	(149,034)
Payments to employees	(80,394)
Internal activity - Payments to other funds	(4,942)
Other receipts	7,125
Net cash provided by operating activities	93,485
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(43,649)
Principal and interest paid on capital debt	(16,626)
Net cash used in capital and related financing activities	(60,275)
Net Increase in Cash and Cash Equivalents	33,210
Cash and Cash Equivalents - Beginning of year	41,381
Cash and Cash Equivalents - End of year	\$ 74,591
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 57,149
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation and amortization	55,450
Changes in assets and liabilities:	
Receivables	(17,844)
Due from other governmental units	21,875
Due from other funds	33,050
Accounts payable	(3,453)
Due to other funds	(37,992)
Due to component unit	(14,750)
Net cash provided by operating activities	\$ 93,485

Noncash Investing, Capital, and Financing Activities - During the year ended March 31, 2005, there were no noncash investing, capital, and financing activities.

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Coloma, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Coloma, Michigan:

Reporting Entity

The City of Coloma, Michigan is governed by an elected six-member commission. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Discretely Presented Component Unit - The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to encourage growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the City Commission. In addition, the Authority's budget is subject to approval by the City Commission.

On July 26, 1999, the City created a Brownfield Redevelopment Authority to revitalize selected environmentally distressed areas within the City limits. This Authority had no assets as of March 31, 2005 and no activity for the period then ended.

Jointly Governed Organizations - The City, along with Coloma Charter Township and Hagar Township, is a member of the Coloma - Hagar Joint Fire Board. The Fire Board is governed by an administrative board of six members, appointed by the City and the townships. The City's equity interest in the Fire Board of \$176,818 is recorded in governmental activities in the government-wide financial statements. Complete financial statements for the Fire Board can be obtained from the City of Coloma mayor's office.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City is a participant with Coloma Charter Township in a joint venture to provide for the administration and operations of the cemetery. Upon dissolution of the Cemetery Board, the net assets will be shared on a prorata basis as follows: 40 percent to City of Coloma and 60 percent to Coloma Charter Township. The Cemetery Board is governed by an administrative board of five members consisting of two members from the City of Coloma and three from Coloma Charter Township. The City's share of fixed assets and the equity interest (\$2,587) are recorded in governmental activities on the government-wide financial statements. Complete financial statements for the Cemetery Board can be obtained from the City of Coloma mayor's office.

The City is also a participant with Coloma Charter Township, Watervliet Township, and the City of Watervliet in a joint venture to provide sanitary sewage treatment and collection facilities for the residents of these communities. The Paw Paw Lake Regional Joint Sewage Disposal Board was created for this purpose. Upon dissolution of the board, the net assets of the Joint Sewage Disposal Board will be shared equally among the four municipalities. The City's equity interest is recorded in business-type activities on the government-wide financial statements. Complete financial statements for the board can be obtained from the City of Coloma mayor's office.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Note 1 - Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds and the proprietary fund. Major individual governmental funds and the major individual Enterprise Fund are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

Note 1 - Summary of Significant Accounting Policies (Continued)

Local Streets Fund - The Local Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

Leonard Fund - The Leonard Fund accounts for funds provided by a private donor and designated by the City Commission for future projects.

The City reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution and sanitary sewer systems.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2004 tax is levied and collectible on December 1, 2004 and is recognized as revenue in the year ended March 31, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the City totaled \$29.6 million (a portion of which is captured by the DDA), on which taxes levied consisted of 16.8739 mills for operating purposes. This resulted in approximately \$500,000 for operating purposes, of which approximately \$421,000 is recognized in the General Fund and \$79,000 is recognized by the component unit. The additional property tax revenue amounts recognized in the component unit relate to amounts collected from other governmental units.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased on the government-wide financial statements. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Land improvements	15 to 25 years
Buildings and building improvements	25 to 50 years
Equipment	5 to 15 years
Vehicles	3 to 12 years
Utility system	10 to 40 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All compensated absence pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at April 1, 2004	\$ (11,531)
Current year construction permit revenue	6,398
Related expenses - Direct costs	<u>(10,956)</u>
Accumulated shortfall at March 31, 2005	<u>\$ (16,089)</u>

Note 3 - Deposits

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has designated two banks for the deposit of its funds. The investment policy adopted by the Commission in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts, CDs, commercial paper, repurchase agreements, bankers' acceptances, and mutual funds as noted above.

The City of Coloma, Michigan's deposits and investment policies are in accordance with statutory authority.

At year end, all deposits were reported in the basic financial statements in the category titled "cash and cash equivalents."

The City's cash is classified by Governmental Accounting Standards Board Statement Number 3 in the following categories:

	Primary Government	Component Unit
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 343,900	\$ 455,668
Petty cash or cash on hand	190	-
Total	<u>\$ 344,090</u>	<u>\$ 455,668</u>

Note 3 - Deposits and Investments (Continued)

Deposits

The bank balance of the City's deposits is \$521,439, of which approximately \$300,000 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component unit's deposits had a bank balance of \$455,668. The entire amount was uninsured and uncollateralized.

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance April 1, 2004	Additions	Balance March 31, 2005
Governmental Activities			
Capital assets not being depreciated:			
Land	\$ 52,900	\$ -	\$ 52,900
Construction in progress	-	532,331	532,331
Subtotal	52,900	532,331	585,231
Capital assets being depreciated:			
Land improvements	43,483	3,500	46,983
Buildings	235,087	-	235,087
Equipment	145,089	3,779	148,868
Vehicles	225,344	-	225,344
Cemetery equipment	67,911	1,247	69,158
Subtotal	716,914	8,526	725,440
Accumulated depreciation:			
Land improvements	14,638	1,997	16,635
Buildings	150,356	3,843	154,199
Equipment	131,342	4,506	135,848
Vehicles	108,945	16,437	125,382
Cemetery equipment	13,204	4,517	17,721
Subtotal	418,485	31,300	449,785
Net capital assets being depreciated	298,429	(22,774)	275,655
Net capital assets	\$ 351,329	\$ 509,557	\$ 860,886

City of Coloma, Michigan

Notes to Financial Statements March 31, 2005

Note 4 - Capital Assets (Continued)

Business-type Activities	Balance April 1, 2004	Additions	Balance March 31, 2005
Capital assets not being depreciated - Sites and basements	\$ 19,888	\$ -	\$ 19,888
Capital assets being depreciated:			
Utility system	1,212,547	-	1,212,547
Buildings and improvements	990,477	-	990,477
Equipment	126,874	43,649	170,523
Vehicles	8,000	-	8,000
Subtotal	2,337,898	43,649	2,381,547
Accumulated depreciation:			
Utility system	544,519	24,200	568,719
Buildings and improvements	554,270	22,497	576,767
Equipment	51,098	8,753	59,851
Vehicles	8,000	-	8,000
Subtotal	1,157,887	55,450	1,213,337
Net capital assets being depreciated	1,180,011	(11,801)	1,168,210
Net capital assets	<u>\$ 1,199,899</u>	<u>\$ (11,801)</u>	<u>\$ 1,188,098</u>

Capital asset activity for the City of Coloma's component unit for the year was as follows:

	Balance April 1, 2004	Additions	Balance March 31, 2005
Component Unit			
Capital assets not being depreciated - Land	\$ 33,333	\$ -	\$ 33,333
Capital assets being depreciated - Vehicles	19,583	-	19,583
Accumulated depreciation - Vehicles	19,257	326	19,583
Net capital assets being depreciated	326	(326)	-
Net capital assets	<u>\$ 33,659</u>	<u>\$ (326)</u>	<u>\$ 33,333</u>

City of Coloma, Michigan

Notes to Financial Statements March 31, 2005

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government and component unit as follows:

Governmental activities:

General government	\$ 5,073
Public works	19,872
Recreation and culture	1,838
Other	<u>4,517</u>

Total governmental activities	<u>\$ 31,300</u>
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Business-type activities - Water and Sewer	<u>\$ 55,450</u>
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Component unit - Downtown Development Authority	<u>\$ 326</u>
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Construction Commitments - The City has one ongoing construction project at year end. The commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
West St. Joseph Street Project	<u>\$ 532,331</u>	<u>\$ 34,064</u>

Note 5 - Interfund Activity

The City's primary government's General Fund has a payable recorded to the City's component unit, the Downtown Development Authority, in the amount of \$13,790. This balance resulted from a time lag between when the accounting system recorded the transaction and when the payment of funds actually occurred.

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
Leonard Fund	Major Streets Fund	\$ 93,000
Leonard Fund	General Fund	42,039
Downtown Development Authority	Major Streets Fund	<u>50,000</u>
Total		<u>\$ 185,039</u>

The transfers from the Leonard Fund to the General Fund and the Major Streets Fund and the transfer from the Downtown Development Authority to the Major Streets Fund were to fund expenditures for the West St. Joseph Street project.

Note 6 - Long-term Debt

The City of Coloma (and its component unit) issue bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government.

City of Coloma, Michigan

Notes to Financial Statements March 31, 2005

Note 6 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities					
Installment purchase agreement					
Amount of issue - \$47,000					
Maturing through 2007	4.39%	\$ 38,390	\$ -	\$ 18,688	\$ 19,702
Accrued compensated absences	-	\$ 39,452	\$ 23,861	\$ -	\$ 63,313
Business-type Activities					
Installment purchase agreement					
Amount of issue - \$77,155					
Maturing through 2009	3.39%	\$ 70,175	\$ -	\$ 14,323	\$ 55,852
Component Units					
1994 Series Downtown Development Bonds					
Amount of issue - \$500,000					
Maturing through 2010	5.90%	\$ 237,298	\$ -	\$ 46,870	\$ 190,428
1995 Series Downtown Development Bonds					
Amount of issue - \$400,000					
Maturing through 2011	7.00%	200,000	-	25,000	175,000
Total component unit		\$ 437,298	\$ -	\$ 71,870	\$ 365,428

Annual debt service requirements to maturity for the above bonds and installment purchase obligations are as follows:

	Governmental Activities			Business-type Activities			Component Unit		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 9,383	\$ 1,291	\$ 10,674	\$ 14,951	\$ 1,899	\$ 16,850	\$ 65,845	\$ 21,415	\$ 87,260
2007	9,795	879	10,674	15,337	1,287	16,624	72,995	16,923	89,918
2008	524	449	973	15,871	753	16,624	75,613	12,205	87,818
2009	-	-	-	9,693	169	9,862	78,415	7,303	85,718
2010	-	-	-	-	-	-	42,560	1,176	43,736
2011	-	-	-	-	-	-	30,000	-	30,000
Total	\$ 19,702	\$ 2,619	\$ 22,321	\$ 55,852	\$ 4,108	\$ 59,960	\$ 365,428	\$ 59,022	\$ 424,450

Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical, disability, and life insurance benefits provided to employees. The City has purchased commercial insurance for employee life and disability, property, and liability claims and participates in the Michigan Municipal League risk pool for claims relating to employee health and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 8 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The City of Coloma has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets not previously accounted for by the City as well as assets totaling approximately \$770,000 that would previously have been reported in the General Fixed Assets Account Group.
- Capital assets at April 1, 2004 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$410,000 to reflect the historical cost of the City's capital assets at that date.
- The governmental activities column includes long-term obligations totaling approximately \$78,000 previously reported in the General Long-term Debt Account Group.

Note 9 - Equity Interest in Paw Paw Lake Regional Joint Sewage Disposal Board

The Paw Paw Lake Regional Joint Sewage Disposal Board had previously been excluded from the financial statements for the City of Coloma.

As a result of the above, retained earnings have been adjusted as follows:

	<u>Enterprise Fund</u>
Retained earnings - April 1, 2004, as previously reported	\$ 1,241,497
Investment in Joint Sewer Board at April 1, 2004	<u>240,512</u>
Retained earnings - April 1, 2004, as adjusted	<u><u>\$ 1,482,009</u></u>

Required Supplemental Information

City of Coloma, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 350,000	\$ 387,959	\$ 421,466	\$ 33,507
State sources	215,000	215,000	172,635	(42,365)
Licenses and permits	9,000	9,000	15,789	6,789
Fines and forfeitures	8,000	8,000	3,886	(4,114)
Interest and rent	85,000	85,000	71,062	(13,938)
Other	90,000	90,000	127,692	37,692
Total revenue	757,000	794,959	812,530	17,571
Expenditures				
General government:				
Legislative	55,600	55,600	68,888	(13,288)
Elections	3,435	3,435	4,127	(692)
Assessor	11,000	11,000	9,300	1,700
Clerk	51,400	51,400	53,611	(2,211)
Treasurer	11,100	11,100	12,841	(1,741)
Board of review	1,125	1,125	682	443
Buildings and grounds	18,500	18,500	11,355	7,145
Total general government	152,160	152,160	160,804	(8,644)
Public safety:				
Police	210,615	210,615	176,778	33,837
Fire	42,200	42,200	60,788	(18,588)
Ambulance	7,500	7,500	8,125	(625)
Inspections	11,400	11,400	10,956	444
Total public safety	271,715	271,715	256,647	15,068
Public works - Department of public works	213,250	213,250	243,587	(30,337)
Recreation and culture:				
Parks	9,945	9,945	8,182	1,763
Public relations	11,250	11,250	11,221	29
Total recreation and culture	21,195	21,195	19,403	1,792
Other - Cemetery	57,000	57,000	68,220	(11,220)
Total expenditures	715,320	715,320	748,661	(33,341)
Excess of Revenues over Expenditures	41,680	79,639	63,869	(15,770)
Other Financing Sources - Transfers from other funds	-	-	42,039	42,039
Net Change in Fund Balance	41,680	79,639	105,908	26,269
Fund Deficit - Beginning of year	(80,609)	(80,609)	(80,609)	-
Fund Balance (Deficit) - End of year	\$ (38,929)	\$ (970)	\$ 25,299	\$ 26,269

City of Coloma, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Street Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Federal sources	\$ 365,000	\$ 365,000	\$ 375,000	\$ 10,000
State sources	90,000	90,000	93,963	3,963
Total revenue	455,000	455,000	468,963	13,963
Expenditures				
Street construction	458,000	458,000	550,558	(92,558)
Routine maintenance	21,165	21,165	17,093	4,072
Sweeping	11,360	11,360	7,733	3,627
Trees and shrubs	11,050	11,050	9,758	1,292
Ditches and drains	2,840	2,840	1,677	1,163
Traffic services	7,275	7,275	2,401	4,874
Winter maintenance	13,075	13,075	9,240	3,835
Total expenditures	524,765	524,765	598,460	(73,695)
Excess of expenditures over revenue	(69,765)	(69,765)	(129,497)	(59,732)
Other Financing Sources				
Transfers from other funds	93,000	93,000	93,000	-
Transfer from component unit	-	-	50,000	50,000
Total other financing sources	93,000	93,000	143,000	50,000
Excess of Revenue and Other Financing Sources Over Expenditures	23,235	23,235	13,503	(9,732)
Fund Balance - Beginning of year	34,953	34,953	34,953	-
Fund Balance - End of year	<u>\$ 58,188</u>	<u>\$ 58,188</u>	<u>\$ 48,456</u>	<u>\$ (9,732)</u>

City of Coloma, Michigan

Required Supplemental Information Budgetary Comparison Schedule Local Street Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue - State sources	\$ 32,000	\$ 32,000	\$ 33,387	\$ 1,387
Expenditures				
Street construction	3,500	3,500	3,316	184
Routine maintenance	7,675	7,675	6,217	1,458
Sweeping	1,500	1,500	249	1,251
Trees and shrubs	11,470	11,470	7,545	3,925
Ditches and drains	1,560	1,560	1,085	475
Traffic services	1,300	1,300	71	1,229
Winter maintenance	7,640	7,640	3,025	4,615
Total expenditures	34,645	34,645	21,508	13,137
Excess (Deficiency) of Revenue Over Expenditures	(2,645)	(2,645)	11,879	14,524
Fund Balance - Beginning of year	26,830	26,830	26,830	-
Fund Balance - End of year	<u>\$ 24,185</u>	<u>\$ 24,185</u>	<u>\$ 38,709</u>	<u>\$ 14,524</u>

City of Coloma, Michigan

Required Supplemental Information Budgetary Comparison Schedule Leonard Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue - Interest	\$ 1,000	\$ 1,000	\$ 1,958	\$ 958
Expenditures - General government - Other	-	-	1,358	(1,358)
Excess of Revenue Over Expenditures	1,000	1,000	600	400
Other Financing Uses - Transfers to other funds	93,000	93,000	135,039	(42,039)
Excess of Expenditures and Other Financing Uses Over Revenue	(92,000)	(92,000)	(134,439)	42,439
Fund Balance - Beginning of year	287,482	287,482	287,482	-
Fund Balance - End of year	<u>\$ 195,482</u>	<u>\$ 195,482</u>	<u>\$ 153,043</u>	<u>\$ 42,439</u>

City of Coloma, Michigan

Note to Required Supplemental Information March 31, 2005

Note - Budgetary Information

Budgetary Information - The budgets are prepared by the mayor and adopted by the City Commission prior to the start of the fiscal year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds. The budget was amended once during the fiscal year ended March 31, 2005. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Coloma, Michigan incurred expenditures that were significantly in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund		
General government - Legislative	\$ 55,600	\$ 68,888
Public safety - Fire	42,200	60,788
Public works - Department of Public Works	213,250	243,587
Other - Cemetery	57,000	68,220
Major Streets Fund - Highways and streets -		
Street construction	458,000	550,558
Leonard Fund - Transfers to other funds	93,000	135,039



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To the City Commission
City of Coloma, Michigan
119 N. Paw Paw Street
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In planning and performing our audit of the financial statements of the City of Coloma for the year ended March 31, 2005, we considered the City's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements. This report contains items considered to be reportable conditions, as defined above, as well as other items we feel warrant your consideration.

Bank Reconciliation Process

We commend the City's responsiveness to our internal control recommendations. We noted that during fiscal 2005, the City Commission Finance Committee began reviewing and approving the monthly "bank reconciliation" reports prepared by the Treasurer. However, these reports do not clearly reconcile the bank balance to the general ledger balance. For example, the March 31, 2005 reconciliation did not identify a deposit in transit which was required to reconcile the balances. The outstanding checklist should provide more detail, including check number, payee, and check date. We recommend that the bank reconciliation process be strengthened, which would allow the Finance Committee a more complete review of the reconciliation. In addition, the same process should be followed for the trust and agency account.

Financial Overview

During the year ended March 31, 2005, the City's General Fund, Major Street Fund and Local Street Fund fund balances increased as the fund's revenues and other financing sources exceeded expenditures by approximately \$106,000, \$13,500, and \$12,000, respectively. The Leonard Fund experienced a significant decline in fund balance of approximately \$134,000 during the fiscal year. This was in large part due to transfers from the Leonard Fund of approximately \$42,000 and \$93,000 to the General and Major Streets Funds, respectively. Both of these transfers were to cover expenditures for the West St. Joseph Street Project, which was substantially completed during fiscal 2005.



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Financial Overview (Continued)

The Water/Sewer Fund experienced an operating gain of approximately \$57,000 during fiscal 2005. Sewer and water charge revenues remained steady during the year. However, the City received \$75,000 from Coloma Charter Township under the new water/sewer maintenance agreement. This was the first complete year under the agreement. The City received approximately \$22,000 from the agreement in fiscal 2004.

New Report Format

As you are probably aware, the format of this year's financial statements looks different than in years past. During 2005, the City adopted the requirements of the new Governmental Accounting Standard Board Standard #34. Most noticeably, your financial statements begin with a new section, a management's discussion and analysis. Other changes involve the equity portion of the statement of net assets, format changes to both the statement of net assets and the statement of cash flows, and several changes to the notes to financial statements. We would be happy to discuss these changes further at your convenience.

State-shared Revenue

State-shared revenue accounts for approximately 21 percent of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue-sharing payments to local units of government) and the State's budget problems, which have resulted in additional appropriation reductions to the revenue-sharing line item in the State's budget, revenue-sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state-shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple-year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue-sharing payments to cities, villages, and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the governor.

It is generally acknowledged that the State's budget woes will continue for several more years. In February 2005, the governor issued an executive order, proposing no further cuts to revenue sharing. In addition, the Governor has also presented her fiscal year 2005/2006 budget, which includes a total "shortfall" of \$773 million. The 2005/2006 budgeted constitutional and statutory revenue sharing is approximately \$1.1 billion, which is basically the fiscal year 2004/2005 level. However, the revenue-sharing act will require an amendment to accomplish distribution in this manner.

State-shared Revenue (Continued)

While governmental units might be tempted to budget for fiscal year 2005/2006 based on fiscal year 2004/2005 funding levels, there is still much to take place in the legislative process before this budget becomes law. In addition, there is continued uncertainty related to Michigan's economy despite the positive economic results experienced by other large states.

The table below details state-shared revenue for the City over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state-shared revenue experienced by the City compared to the State's fiscal year 2000.

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Decrease from 2000</u>
2000	\$109,926	\$113,816	\$223,742	\$0
2001	\$124,959	\$103,503	\$228,462	\$(4,720)
2002	\$113,412	\$104,556	\$217,968	\$5,774
2003	\$102,317	\$106,327	\$208,644	\$15,098
2004	\$82,347	\$105,172	\$187,519	\$36,223

Lastly, while it is good news that revenue sharing may be maintained at current levels, revenue sharing for fiscal year 2004/2005 and fiscal year 2005/2006 is more than \$500 million less annually than amounts provided for in law and based on actual sales tax collections. Based on the State's current budget situation, a return to past funding levels is not likely in the foreseeable future. We will continue to update the City as developments occur.

Unallowed Expenditures

Elected officials, as well as management, should become familiar with what might be considered potentially unlawful expenditures. The State of Michigan website has provided a reference for local government officials, employees and governmental auditors of selected references that address some of the questionable expenditures of local government. Some of the unlawful expenditures noted are as follows: contributions to nonprofit organizations, donations to a private ambulance or EMS service not under contract with the governmental unit, donations, including use of property or equipment to Little League, Scouts, Big Brothers/Sisters, office refreshments and picnics, flowers to the sick or departed, presents to officials and employees or retirement recognition events, etc. A more inclusive listing can be found at the State's website at: http://www.michigan.gov/treasury/1,1607,7-121-1751_2194-7603--,00.html.

Compensated Absence Request Forms

The City does not require a compensated absence request form be filled out by employees and approved for use of vacation and sick time. We recommend that this requirement be implemented to avoid confusion and maintain a more comprehensive history of compensated absences.

Bi-monthly Accounts Receivable Reconciliation

It came to our attention during our testing of accounts receivable, that the billing system is not reconciled on a bi-monthly basis to the general ledger. Every cycle, the billing system accounts receivable customer detail should be reconciled to the general ledger accounts receivable balance, with any reconciling items noted and explained. This process is necessary, especially due to the billing system automatically posting the monthly wrap-up entries to the general ledger. This reconciliation allows accounting personnel to verify the integrity of the accounts receivable balance on the general ledger on a bi-monthly basis.

Leonard Fund

During 2003, a Special Revenue Fund was established for the Leonard Fund. However, no budget was prepared for the Leonard Fund for the years ended March 31, 2005 and 2004. We would like to remind the City Commission that a budget is required for all Special Revenue Funds.

Township Public Works Agreement Renewal

The agreement with Coloma Charter Township for water/sewer service will expire on December 15, 2005, if it is not renewed. If the City desires to continue the service, we recommend that the City enter into negotiations with the Township to extend the agreement immediately. Based on the agreement, the service will not continue, but will expire if the contract is not renewed.

Water/Sewer Rate Study

During our testing, it came to our attention that water and sewer rates have not been adjusted since fiscal 2002. The City has maintained lower than average rates with respect to many of the surrounding communities. We recommend that the City consider conducting a rate study to determine the feasibility of increasing these rates. Plante & Moran can provide expertise in this area if the City Commission desires.

-We would like to compliment the city staff on their preparation for this year's audit. We also appreciate the courtesy and cooperation extended to us by you and members of your City during the audit. We appreciate the opportunity to present these recommendations for your consideration and would be pleased to discuss them further at your convenience.

A handwritten signature in black ink that reads "Plante & Moran, PLLC". The signature is written in a cursive, flowing style. To the right of the signature is a vertical red line.

June 1, 2005